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SUBJECT: INFLATION IN VIETNAM HITS 10 PERCENT

REF: A) HANOI 1729 B) HANOI 1475

11. (SBU) Summary: Vietnam's Consumer Price Index (CPI) has hit a record high of 10% year-on-year for the month of November, continuing an eleven-month trend of accelerating inflation. High inflation will likely continue because of the recent increase in fuel prices and retail price hikes for the holiday season. The GVN continues to struggle internally about how to address the issue of inflation. End summary.

12. (U) Vietnam's General Statistics Office (GSO) recently reported that the November CPI hit a record high of 10.01% year-on-year. The GSO attributes the continued rise to the effects of flooding in the country's central region, which has hurt supply, causing food prices to increase by 14.9 percent year-on-year in November (food and foodstuffs comprise nearly 40% of the CPI basket). Building materials were also up 14 percent year-on-year in November, however, suggesting that food supply disruptions are not the full story.

13. (U) Local analysts expect that prices will continue to rise following a 15% increase in fuel prices by the Ministry of Finance (MOF) on November 22. The MOF, which controls the price of petrol, raised the price per liter from VND 11,300 (approx. USD .71) to VND 13,000 (approx. USD .81). Local experts also forecast that increased transportation costs will lead to a rise in production costs that will be felt across the board in Vietnam, especially in offshore fishing and heavy industry. They further predict this pressure on prices, combined with the usual increase around the holiday season, which is already evident in many retail outlets, will continue to drive inflation through the Tet holiday in February.

14. (SBU) The debate surrounding how to control inflation (Reftel A) continues within the GVN. In a recent meeting at the State Bank of Vietnam (SBV), an office director involved with monetary policy plainly (and to our surprise because of his openness) stated to Econoff that inflation was not the SBV's fault and that others in the GVN were not allowing the SBV to control the problem. He further commented that the SBV was looking forward to the day when it could be a more independent central bank. (Comment: He was likely referencing the pending law on State Bank reform, which is supposed to allow the SBV to develop monetary policy with less interference from political institutions. End comment.)

15. (U) Press reports noting the SBV's attempts to permit the Dong to appreciate were quickly followed by additional reports that the MOF had put a stop to such efforts. Perhaps looking for middle ground among the various parties (e.g., SBV, MOF, and the Economic Council), the Prime Minister recently announced the formation of a "National Advisory Council on Monetary and Financial Policy," which

will be comprised of government officials and private-sector types, to advise the GVN on financial and monetary policies and mechanisms.

The former Governor of the SBV, Le Duc Thuy, who left his post amongst allegations of corruption, will serve as the vice president of the Council.

¶6. (SBU) Comment: Double digit inflation is an unwelcome milestone for the GVN. Given the falling value of the dollar elsewhere combined with a rising CPI in Vietnam, even the strongest proponents of a depreciated Dong may now have to re-evaluate their position. Although consumer reaction remains muted, the inevitable supply chain ripples of the gas price hike combined with predicted Tet increases could lead to a more vocal public outcry. End Comment.

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